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APPLICATION NO.	FILING DATE	FIRST NAMED INVENTOR	ATTORNEY DOCKET NO.	CONFIRMATION NO.
09/607,891	06/30/2000	Garnet G. Morris	55711/0002	1214

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EXAMINER

DASS, HARISH T

ART UNIT PAPER NUMBER

3628

DATE MAILED: 08/09/2004

Please find below and/or attached an Office communication concerning this application or proceeding.

Office Action Summary

Application No.

09/607,891

Applicant(s)

MORRIS ET AL.

Examiner

Harish T Dass

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-- The MAILING DATE of this communication appears on the cover sheet with the correspondence address --

Period for Reply

A SHORTENED STATUTORY PERIOD FOR REPLY IS SET TO EXPIRE 3 MONTH(S) FROM THE MAILING DATE OF THIS COMMUNICATION.

- Extensions of time may be available under the provisions of 37 CFR 1.136(a). In no event, however, may a reply be timely filed after SIX (6) MONTHS from the mailing date of this communication.
- If the period for reply specified above is less than thirty (30) days, a reply within the statutory minimum of thirty (30) days will be considered timely.
- If NO period for reply is specified above, the maximum statutory period will apply and will expire SIX (6) MONTHS from the mailing date of this communication.
- Failure to reply within the set or extended period for reply will, by statute, cause the application to become ABANDONED (35 U.S.C. § 133). Any reply received by the Office later than three months after the mailing date of this communication, even if timely filed, may reduce any earned patent term adjustment. See 37 CFR 1.704(b).

Status

- 1) ☒ Responsive to communication(s) filed on 13 May 2004.
- 2a) ☐ This action is **FINAL**. 2b) ☒ This action is non-final.
- 3) ☐ Since this application is in condition for allowance except for formal matters, prosecution as to the merits is closed in accordance with the practice under *Ex parte Quayle*, 1935 C.D. 11, 453 O.G. 213.

Disposition of Claims

- 4) ☒ Claim(s) 1-20 is/are pending in the application.
- 4a) Of the above claim(s) _____ is/are withdrawn from consideration.
- 5) ☐ Claim(s) _____ is/are allowed.
- 6) ☒ Claim(s) 1-20 is/are rejected.
- 7) ☐ Claim(s) _____ is/are objected to.
- 8) ☐ Claim(s) _____ are subject to restriction and/or election requirement.

Application Papers

- 9) ☐ The specification is objected to by the Examiner.
- 10) ☐ The drawing(s) filed on _____ is/are: a) ☐ accepted or b) ☐ objected to by the Examiner.
Applicant may not request that any objection to the drawing(s) be held in abeyance. See 37 CFR 1.85(a).
Replacement drawing sheet(s) including the correction is required if the drawing(s) is objected to. See 37 CFR 1.121(d).
- 11) ☐ The oath or declaration is objected to by the Examiner. Note the attached Office Action or form PTO-152.

Priority under 35 U.S.C. § 119

- 12) ☐ Acknowledgment is made of a claim for foreign priority under 35 U.S.C. § 119(a)-(d) or (f).
- a) ☐ All b) ☐ Some * c) ☐ None of:
1. ☐ Certified copies of the priority documents have been received.
 2. ☐ Certified copies of the priority documents have been received in Application No. _____.
 3. ☐ Copies of the certified copies of the priority documents have been received in this National Stage application from the International Bureau (PCT Rule 17.2(a)).

* See the attached detailed Office action for a list of the certified copies not received.

Attachment(s)

- | | |
|--|---|
| 1) <input checked="" type="checkbox"/> Notice of References Cited (PTO-892) | 4) <input type="checkbox"/> Interview Summary (PTO-413)
Paper No(s)/Mail Date. _____ |
| 2) <input type="checkbox"/> Notice of Draftsperson's Patent Drawing Review (PTO-948) | 5) <input type="checkbox"/> Notice of Informal Patent Application (PTO-152) |
| 3) <input type="checkbox"/> Information Disclosure Statement(s) (PTO-1449 or PTO/SB/08)
Paper No(s)/Mail Date _____ | 6) <input type="checkbox"/> Other: _____ |

DETAILED ACTION

Claim Rejections - 35 USC § 101

1. 35 U.S.C. 101 reads as follows:

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

Claims 1-6 remain rejected under 35 U.S.C. 101 because the claimed invention is directed to non-statutory subject matter, particularly, an abstract idea.

Claim Rejections - 35 USC § 103

2. The following is a quotation of 35 U.S.C. 103(a) which forms the basis for all obviousness rejections set forth in this Office action:

(a) A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negated by the manner in which the invention was made.

Claims 1-2, 6-14, 16-19 are rejected under 35 U.S.C. 103(a) as being unpatentable over Galaty et al (hereinafter Galaty – “Modern Real Estate Practice”, Fifth Edition, 2000) in view of Webel (“RCAs Can Boost Entrepreneurs' Borrowing Power, Retirement Funds” The Globe and Mail, Monday, Feb 14, 2000).

Re. Claim 1, 6-8, 10-14, 16-19, Galaty discloses investment securities (bonds) issued by private offerors (such as banks) and backed by pools of mortgage loans [page 227], mortgage loans (mortgage loan is a collateral loan against an asset such as real property), aggregating a plurality (pool) of loans, and creating a plurality of debt securities backed by the plurality of loans, and selling the plurality of debt securities in

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an offering, comprising an additional service provider connected to the custodian, the additional service provider including one of a liquidity provider, an advance provider and a service, comprising a master trustee connected to the custodian, the master trustee being legally authorized to seek monies refunded from a refundable tax account of a respective one of the plurality of loans, a principal and interest account connected to the custodian, a special purpose vehicle (SPV) acquiring a portfolio of floating rate loans (mortgage loans, notes, student loans, etc.) [See all selected pages, particularly Page 227], and wherein each of the plurality of loans (mortgage loan) is secured by an insurance policy and each of the plurality of debt securities provides an investment in a claims-paying ability of each insurance company issuing the insurance policy [pages 142-143]. Galaty, explicitly, does not disclose RCA loans and computer readable program code, computer coupled to the communication link (an Internet network link, a proprietary dial-up network link, a local area network link, a wide area network link, an optical fiber network link and a wireless network link). Galaty, explicitly, does not disclose RCA loans, and a swap counterparty connected to the custodian, the swap counterparty converting payment from the portfolio of floating rate RCA loans to a stream of fixed payments for providing payment to holders of the debt instruments. However, Webel discloses this RCA loan [col. 4-5] access to cost efficient financing where the lender (bank) is lending against RCA assets [see Webel document - one page only]. It would have been obvious at the time the invention was made to a person having ordinary skill in the art to modify the disclosure of Galaty and include RCA loan,

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as disclosed by Webel, to borrow and invest backed in the company and benefiting from the tax.

Further, computer readable program code, computer coupled to the communication link (an Internet network link, a proprietary dial-up network link, a local area network link, a wide area network link, an optical fiber network link and a wireless network link) and a swap counterparty connected to the custodian, the swap counterparty converting payment from the portfolio of floating rate loans (any floating or variable rate loans including loans such as RCA loan) to a stream of fixed payments for providing payment to holders of the debt instruments (variable rate to fixed rate loan) are well known to increase productivity by using the power of computer network system which connects many computers together. It would have been obvious at the time the invention was made to a person having ordinary skill in the art to modify the disclosure of Galaty and include computer readable program code and computer network to allow remote user to remotely and additionally, provide flexibility to use the software from CD or other readable medium (such as hard-drive, tapes, etc.) on another computer.

Re. Claims 2 & 9, Galaty discloses wherein the offering is one of a private offering and a public offering (common stocks and secondary market for mortgage loans) [page 227].

Claims 3-5, 15, & 20 are rejected under 35 U.S.C. 103(a) as being unpatentable over Galaty and Webel as applied to claim 1 above, and further in view of Hymer.

Re. Claims 3, 15 and 20 Galaty discloses investment securities issued by private offerors (such as banks) and backed by pools of mortgage loans, mortgage loans [see claim 1]. Galaty does not explicitly disclose a distribution from a first party to a RCA account and to a refundable tax account, an amount of the distribution being equally divided between the RCA account and the refundable tax account, and an insurance policy owned by the RCA account and having a cash surrender value at least as great as the amount of the distribution to the RCA account, first loan from a lending party to the RCA account, the first loan having a value equal to a predetermined percentage of the distribution, the first loan being secured by the insurance policy and a right to monies recovered from the refundable tax account, and a second loan from the RCA account to an intermediary party, the second loan having a value substantially equal to the value of the first loan, and a third loan from the intermediary party to the first party, the third loan having a value substantially equal to the value of the first loan.

However, Webel discloses a distribution from a first party to a RCA account and to a refundable tax account, an amount of the distribution being equally divided between the RCA account and the refundable tax account, and an insurance policy owned by the RCA account and having a cash surrender value at least as great as the amount of the distribution to the RCA account to allow the executive to withdraw RCA assets when he is retires.

Further, Hymer disclose a first loan from a lending party to the RCA account, the first loan having a value equal to a predetermined percentage of the distribution, the first

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loan being secured by the insurance policy and a right to monies recovered from the refundable tax account, and a second loan from the RCA account to an intermediary party, the second loan having a value substantially equal to the value of the first loan, and a third loan from the intermediary party to the first party, the third loan having a value substantially equal to the value of the first loan to keep the financing cost down. It would have been obvious to one of ordinary skill in the art of loans (mortgage loan, etc.) systems to combine Galaty, Webel, and Hymer to pay off second loan earlier to benefit from not paying higher interest [Hymer].

Re. Claims, 4-5, Galaty discloses universal life insurance [page 143]. Galaty does not explicitly disclose wherein the universal life insurance policy includes a first cash surrender value and a second cash surrender value greater than the first cash surrender value, wherein upon a default condition of a respective one of the plurality of RCA loans, the second cash surrender value is used to offset a negative carry condition. However, this step is well known (for example, PMI (private mortgage insurance) just does the same thing) to provide assurance to the lender in case the loan is not paid. It would have been obvious to one of ordinary skill in the art of loans (mortgage loan, etc.) systems to modify the disclosure of Galaty and include universal life insurance policy, as it is well known, to pay the lender in event the loan is not paid.

Response to Arguments

3. Applicant's arguments with respect to pending claims have been considered but are moot in view of the new ground(s) of rejection.

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a). In response to Applicant's argument that mortgage backed security is a real estate transaction. Per dictionary of Finance and Investment Terms, Barron's Financial Guides, 1998, mortgage-backed certificate is defined security backed by mortgages, and mortgage is defined debt instrument by which the borrower gives the lender a lien on property as security. Property can be any thing such as gold, certificate of stock, etc.

b). In response to applicant argument U.S.C. 112, applicant's argument is accepted and rejection U.S.C. is withdrawn.

c). In response to applicant argument on U.S.C. 101, see the followings:

35 U.S.C. 101 reads as follows:

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

Claims 1-6 remain rejected under 35 U.S.C. 101 because the claimed invention is directed to non-statutory subject matter. As an initial matter, the United States Constitution under Art. I, §8, cl. 8 gave Congress the power to "[p]romote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries". In carrying out this power, Congress authorized under 35 U.S.C. §101 a grant of a patent to "[w]hoever invents or discovers any new and useful process, machine, manufacture, or composition or matter, or any new and useful improvement thereof." Therefore, a fundamental premise is that a patent is a statutorily created vehicle for Congress to confer an exclusive right to the inventors for "inventions" that promote the progress of "science and the useful arts". The phrase "technological arts" has been created and used by the courts

to offer another view of the term "useful arts". See *In re Musgrave*, 167 USPQ (BNA) 280 (CCPA 1970). Hence, the first test of whether an invention is eligible for a patent is to determine if the invention is within the "technological arts".

Further, despite the express language of §101, several judicially created exceptions have been established to exclude certain subject matter as being patentable subject matter covered by §101. These exceptions include "laws of nature", "natural phenomena", and "abstract ideas". See *Diamond v. Diehr*, 450, U.S. 175, 185, 209 USPQ (BNA) 1, 7 (1981). However, courts have found that even if an invention incorporates abstract ideas, such as mathematical algorithms, the invention may nevertheless be statutory subject matter if the invention as a whole produces a "useful, concrete and tangible result." See *State Street Bank & Trust Co. v. Signature Financial Group, Inc.* 149 F.3d 1368, 1973, 47 USPQ2d (BNA) 1596 (Fed. Cir. 1998).

This "two prong" test was evident when the Court of Customs and Patent Appeals (CCPA) decided an appeal from the Board of Patent Appeals and Interferences (BPAI). See *In re Toma*, 197 USPQ (BNA) 852 (CCPA 1978). In *Toma*, the court held that the recited mathematical algorithm did not render the claim as a whole non-statutory using the Freeman-Walter-Abele test as applied to *Gottschalk v. Benson*, 409 U.S. 63, 175 USPQ (BNA) 673 (1972). Additionally, the court decided separately on the issue of the "technological arts". The court developed a "technological arts" analysis:

The "technological" or "useful" arts inquiry must focus on whether the claimed subject matter...is statutory, not on whether the product of the claimed subject matter...is statutory, not on whether the prior art which the claimed subject matter purports to replace...is statutory, and not on whether the claimed subject matter is presently perceived to be an improvement over the prior art, e.g., whether it "enhances" the operation of a machine. In re Toma at 857.

In Toma, the claimed invention was a computer program for translating a source human language (e.g., Russian) into a target human language (e.g., English). The court found that the claimed computer implemented process was within the "technological art" because the claimed invention was an operation being performed by a computer within a computer.

The decision in State Street Bank & Trust Co. v. Signature Financial Group, Inc. never addressed this prong of the test. In State Street Bank & Trust Co., the court found that the "mathematical exception" using the Freeman-Walter-Abele test has little, if any, application to determining the presence of statutory subject matter but rather, statutory subject matter should be based on whether the operation produces a "useful, concrete and tangible result". See State Street Bank & Trust Co. at 1374. Furthermore, the court found that there was no "business method exception" since the court decisions that purported to create such exceptions were based on novelty or lack of enablement issues and not on statutory grounds. Therefore, the court held that "[w]hether the patent's claims are too broad to be patentable is not to be judged under §101, but rather

under §§102, 103 and 112." See *State Street Bank & Trust Co.* at 1377. Both of these analysis goes towards whether the claimed invention is non-statutory because of the presence of an abstract idea. Indeed, *State Street* abolished the *Freeman-Walter-Abele* test used in *Toma*. However, *State Street* never addressed the second part of the analysis, i.e., the "technological arts" test established in *Toma* because the invention in *State Street* (i.e., a computerized system for determining the year-end income, expense, and capital gain or loss for the portfolio) was already determined to be within the technological arts under the *Toma* test. This dichotomy has been recently acknowledged by the Board of Patent Appeals and Interferences (BPAI) in affirming a §101 rejection finding the claimed invention to be non-statutory. See *Ex parte Bowman*, 61 USPQ2d (BNA) 1669 (BdPatApp&Int 2001).

In the present application, Claims 1-6 have no connection to the technological arts. None of the steps indicate any connection to a computer or technology. Therefore, the claims are directed towards non-statutory subject matter. To overcome this rejection the Examiner recommends that Applicant amend the claims to better clarify which of the steps are being performed within the technological arts; for example: "computer is used to calculate the RCA loan rate, etc."

Conclusion

4. The prior art made of record and not relied upon is considered pertinent to applicant's disclosure. Applicant is required under 37 CFR ' 1.111 (c) to consider the references fully when responding to this action.

(Previously provided) US Pat. 6,473,737 to Burke, Oct. 29, 2002 "System, method and apparatus for providing an executive compensation system", this disclosure provides a system, method and apparatus for providing an executive compensation system having a first entity, a money lender, and an insurer. The first entity receives a taxable sum of money from a second entity, which owes the taxable sum of money to a person. The first entity provides one or more periodic payments to the person until the person dies, wherein the one or more periodic payments determined from the taxable sum of money and the person's life expectancy.

(Previously provided) US Pat. 5,966,693 to Burgess, Oct. 12, 1999 "Method For Combining Loan With Key Employee Life Insurance", this invention discloses a data representing the terms of insurance agreement and loan agreement of employees are stored in a memory which are processed to equate the sum of the contribution of the employer and employee with a particular loan principal. The contribution levels of the employer and employee are adjusted to determine actual payments such that it is sufficient to support split dollar insurance policy.

(Previously provided) US Pat. 5,946,667 to Tull, Jr. et al, Aug. 31, 1999 "Data processing system and method for financial debt instruments", this

invention discloses A data processing system and method is disclosed for implementing and control of a financial debt instrument, which is issued for a limited period of time and is traded as a listed security. The debt instrument is based on an underlying basket of stocks optimally selected to track an established capital market and its price also reflects accrued investment income and maintenance expenses.

(Previously provided) US Pat. 5,878,405 to Grant et al, Mar. 2, 1999 "Pension planning and liquidity management system", this invention discloses relates to the liquidity and related planning systems for pensionbased assets, and specifically to processes used for pension-based participant decision making and subsequent actions with respect to loans, retirement disbursements, and contribution rates.

(Previously provided) US Pat. 6,012,047 to Mazonas et al, Jan 4, 2000 "Reverse Mortgage Processing System", the present invention generally relates to systems for processing a plurality of individual accounts directed to mortgage analysis and management. More particularly, the present invention relates to a data processing system designed to evaluate select inputs corresponding to one of plural mortgage accounts, develop a profile of operating characteristics for originating a reverse equity mortgage instrument and managing a plurality of structured accounts in accordance with the specifics of the selectively established mortgage characteristics.

Any inquiry concerning this communication or earlier communications from the examiner should be directed to Harish T Dass whose telephone number is 703-305-4694. The examiner can normally be reached on 8:00 AM to 4:50 PM.

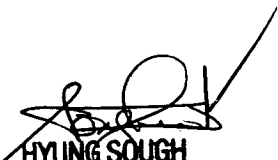
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If attempts to reach the examiner by telephone are unsuccessful, the examiner's supervisor, Hyung S Sough can be reached on 703-308-0505. The fax phone number for the organization where this application or proceeding is assigned is 703-872-9306.

Information regarding the status of an application may be obtained from the Patent Application Information Retrieval (PAIR) system. Status information for published applications may be obtained from either Private PAIR or Public PAIR. Status information for unpublished applications is available through Private PAIR only. For more information about the PAIR system, see <http://pair-direct.uspto.gov>. Should you have questions on access to the Private PAIR system, contact the Electronic Business Center (EBC) at 866-217-9197 (toll-free).

Harish T Dass
Examiner
Art Unit 3628

7/28/04



HYUNG SOUGH
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